



**A Report to the  
Audit Committee**

**Mayor**  
Karl Dean

**Deputy Mayor**  
Greg Hinote

**Audit Committee Members**

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**Clerk and Master of the Chancery  
Court – Performance Audit  
Public Report**

**August 28, 2013**

**Metropolitan  
Nashville  
Office of  
Internal Audit**

# EXECUTIVE SUMMARY

August 28, 2013



## Why We Did This Audit

The audit was initiated based on the number of years that have elapsed since the last audit was conducted by this office.

## What We Recommend

The Clerk and Master could mitigate risks by strengthening reviews and physical controls, confirming leave time balances, creating up to date training materials, and maximizing technology use.

For more information on this or any of our reports, email [Mark.Swann@nashville.gov](mailto:Mark.Swann@nashville.gov)

# CLERK AND MASTER AUDIT

## BACKGROUND

The mission of the Clerk and Master is to administer the Chancery Court caseload by maintaining books, records, and case files, to collect and report substantial revenue from delinquent taxes and court costs, to issue, process, and invest funds held as trustee as an arm of the Chancery Court, and to provide public records and information to citizens.

## OBJECTIVES AND SCOPE

The objectives of the audit were to:

- Determine if controls and procedures were in place to properly manage fiscal resources.
- Determine if Clerk and Master policies were congruent with state and local guidelines.
- Determine if training manuals and procedures were sufficient.
- Determine if computer systems in place were effective for office needs.
- Determine if internal and external service requirements were being met.

The audit scope included July 1, 2011, through June 30, 2013.

|  | FY 2012             | FY 2013             |
|--|---------------------|---------------------|
| <b>REVENUES</b>                              |                     |                     |
| Charges, Commissions, and Fees (Program)     | 1,417,231           | 1,347,876           |
| Fines, Forfeits, and Penalties (Non-Program) | \$ 679,047          | \$ 599,661          |
| Property Taxes (Non-Program)                 | 59,297              | 54,325              |
| <b>Total Revenues</b>                        | <b>\$ 2,155,575</b> | <b>\$ 2,001,862</b> |
| <b>EXPENDITURES</b>                          |                     |                     |
| Personal Services                            | \$ 1,284,036        | \$ 1,293,978        |
| Other Services                               | 213,856             | 220,856             |
| <b>Total Expenditures</b>                    | <b>\$ 1,497,892</b> | <b>\$ 1,514,834</b> |
| <b>FUNDS HELD IN TRUST</b>                   |                     |                     |
| <b>Total Funds Held in Trust</b>             | <b>\$ 7,846,618</b> | <b>\$5,053,806</b>  |

Source: Metro Nashville's EnterpriseOne Financial System

## WHAT WE FOUND

In general, the Clerk and Master had controls in place to effectively manage resources and protect assets. Service requirements were being effectively delivered. However, controls could be strengthened in such areas as reviews and reconciliations, leave time, training, and technology.

## GOVERNANCE

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The office of the Clerk and Master serves as the filing and support office for the Chancery Courts. The office administers the dockets and keeps the calendar and permanent records as directed by the chancellors or required by law. Additionally the Clerk and Master sells real property and deposits or remits judgment funds pursuant to court order and statute as an arm of the court.

## OBJECTIVES AND CONCLUSIONS

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1. *Were reasonable controls in place to ensure proper management of fiscal resources?*

**Generally yes.** The Clerk and Master's revenues and disbursements were managed in a responsible manner. However, improvements could be made around the processes and documentation to enhance the overall controls (see Observation – Part I: A and Observation – Part II: G).

Petty cash and leave accrual and usage were not compliant with applicable policies and procedures. Additional controls and procedures are needed to ensure effective accountability (see Observations Part I: B – C).

2. *Were Clerk and Master Policies congruent with Tennessee and Metropolitan Nashville guidelines?*

**Yes.** The Clerk and Master followed the guidelines set forth by the State of Tennessee and Metropolitan Nashville. The returned check fee charged by the Clerk and Master varied from the requirement stated in the Metropolitan Nashville Code of Laws (see Observations Part I: D).

3. *Did the training materials and other available materials enable efficient, effective, and knowledgeable employees?*

**Generally yes.** The Clerk and Master employees were sufficiently trained for the positions each held. However, the materials provided for training and continued reference could be enhanced to assist employees effectively transition to new positions or rotate to fill other positions (see Observations Part I: E).

4. *Were the computer systems used effective for the needs of the Clerk and Master?*

**Generally no.** The Clerk and Master employed computer systems that were effective for the specific needs of the department. However, these systems were not being utilized to their maximum potential (see Observations Part I: F).

5. *Were the service requirements of the Clerk and Master met both internally and externally?*

**Yes.** The Clerk and Master provided sufficient services to both the public and the Chancellors based on positive survey responses from both groups.

## AUDIT OBSERVATIONS – PART I

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### ***Observation A: Reviews and reconciliations need improvement.***

The Internal Control and Compliance Manual for Tennessee Municipalities recommends that various reviews and reconciliations take place to ensure sufficient controls around receipts and disbursements. These recommendations include management level reviews of bank reconciliations, reviews of supporting documentation before signing checks, and reconciliations of unaccounted for sequential receipt numbers.

The Clerk and Master's monthly bank reconciliations were performed by an employee who had the capability to collect, record, disburse, and deposit funds. Bank reconciliations were not reviewed by an independent party. The lack of segregation of duties with financial transactions was noted as a deficiency causing a material weakness in the 2012 Management Letter from Crosslin & Associates. Therefore controls require strengthening in order to mitigate weaknesses.

Sequentially numbered non-tax receipts were not being reconciled to ensure accountability for all receipts. A small number of receipt gaps were noted as unaccounted for during the audit period. The weak controls increase the risk for unrecorded or misappropriated receipts.

Check writing tasks were properly segregated within the Clerk and Master; however, check requests were not reconciled to supporting documentation. Further, there was no evidence that check stubs filled out by the independent check holder were reconciled to the checks written by the requestor. A small number of check stubs did not reconcile to the checks written.

#### *Recommendation for management of the Clerk and Master to:*

1. Implement monthly reviews of bank reconciliations by a party independent of the cash collection and recording process.
2. Reconcile all receipt numbers at the end of the month. Missing receipt numbers should be documented with an explanation. Removing receipt numbers should require documented approval.
3. Reconcile check requests to supporting documentation, and then reconcile check stubs to check requests. Check stubs and supporting documentation should be approved in writing prior to the signing of the checks.

### ***Observation B: Leave time is not being recorded and accrued in accordance with the Clerk and Master policy.***

The Clerk and Master Policies and Rules Manual set forth the policy for accruing and recording leave time. Prudent business practices encourage confirmations be performed around these balances to ensure they are accurate and in agreement by all employees.

Seven employees (44 percent) had incorrect vacation accrual amounts for 2012. A total of 105.33 hours of vacation were given in excess of what was earned per the policy. A total of 5.34 hours of vacation were under accrued.

Three employees (19 percent) in 2012 and one employee (6 percent) in 2013 had vacation accruals that were negative at some point during the year. Negative vacation time is expressly prohibited by the Clerk and Master policy.

Leave time balances recorded internally by the Clerk and Master did not reconcile to leave time balances within *EBS Financial System (EBS)*. Eleven employees in 2012 had vacation variances between *EBS* and the internal spreadsheet. Fourteen employees in 2012 had sick time variances between *EBS* and the internal spreadsheet.

No evidence of employee agreement with accrued and taken leave time was found. Leave time information was provided upon request but was not confirmed on a regular basis.

*Recommendation for management of the Clerk and Master to:*

1. Confirm all leave time balances annually. Employees should confirm the hours being accrued, the hours taken, and the hours carried forward.
2. Reconcile *EBS* leave time to the internally prepared leave time spreadsheet quarterly.
3. Update Clerk and Master policies and procedures to accurately reflect the leave time policy.

***Observation C: The petty cash checking account contained unsupported disbursements.***

The Internal Control and Compliance Manual for Tennessee Municipalities requires all petty cash transactions be supported with documentation readily available and requires petty cash funds be maintained at the lowest amount possible. The Clerk and Master's petty cash checking account did not have supporting documentation readily available for \$218.28 (27 percent) of expenses, and the account was not reconciled on a regular basis. The shortage was not indicative of any unauthorized use. The account has not been replenished in five years and was not utilized enough to necessitate \$800 of funding.

*Recommendation for management of the Clerk and Master to:*

1. Close the current petty cash checking account and utilize credit cards for any future unanticipated or reimbursable charges.

***Observation D: Returned check fee is not in accordance with Metropolitan Nashville Code of Laws.***

Per Metropolitan Nashville Code of Laws § 5.04.012, "A handling charge of thirty dollars shall be assessed by all offices and department of the metropolitan government against the maker or drawer of any check that is dishonored because the maker or drawer did not have an account with, or sufficient funds with the financial institution, or the check has an incorrect or insufficient signature thereon." The Clerk and Master currently charges \$20 for checks returned by the bank based on a 2005 Chancery Court order. However, in 2007, Metropolitan Nashville Code of Laws § 5.04.012 was approved and stated the collection fee should be \$30. By charging a lower fee, the Clerk and Master is not maximizing revenues.

*Recommendations for management of the Clerk and Master to:*

1. Increase the returned check fee to \$30 in accordance with Metropolitan Nashville Code of Laws.

***Observation E: Job specific training materials are not created, maintained, and utilized.***

The Internal Control and Compliance Manual for Tennessee Municipalities, Title 5, Chapter 28, Section 3 states: “Municipal officials should provide policies and procedures for updating files to include the most current requirements as employees become aware of changes”. Up to date training materials ensure efficient and knowledgeable employees while mitigating the risk of errors.

Job specific materials need to be strengthened to facilitate a more productive learning environment. Written procedures are created by employees on an as needed basis. There are no formal reviews or updates to any of the written procedures to ensure correctness. Based on both employees and chancery responses, training may be hindered by the lack of written information.

*Recommendations for management of the Clerk and Master to:*

1. Create job specific procedure manuals for each position within the department. Implement a regular schedule of reviewing the materials for accuracy and currency.

***Observation F: Technology in place is not being used to its maximum potential.***

Prudent business practices recommend the use of technology to both increase efficiency and mitigate risks. The Clerk and Master had two systems in place to effectively meet the needs of the department. However, the Clerk and Master created, maintained, and relied upon financial information from third-party generic programs (i.e. Excel and Access).

Manual checks and printed receipts were recorded within Excel and Access where keying errors and untraceable manipulation could occur. Any loss of data within Excel or Access would require recreation from available support. Any comments or changes, however, would be lost.

Computer systems offered security measures not being utilized by the Clerk and Master. One employee who is not in Bookkeeping had access to three of the Clerk and Master Manatron tills. The employee had all capabilities of a Bookkeeper even though that is not her assignment or role. Additionally, all Bookkeeping personnel had the same access within Manatron though specific access levels were available. Manatron access may be configured and restricted to particular roles rather than each user having identical and complete access.

Reporting capabilities within Manatron were not being reviewed to mitigate the risks associated with the broad bookkeeping permissions. While Manatron has the capability to categorize and review transactions by type, the information was not being examined. As a result there was limited assurance the bookkeepers were only performing authorized functions.

Online bank statements, requiring no additional software are not used by the Clerk and Master. Currently, the Bookkeeping Supervisor must wait until the Clerk and Master has reviewed the hard copy bank statement before completing the bank reconciliation. During the audit period, the time period

before the account was reconciled could be anywhere from 8 to 34 days after month end. With online statement only access, the reconciliation could be performed earlier.

*Recommendations for management of the Clerk and Master to:*

1. Review access to Manatron software for all users and define specific roles for each employee based solely on the functions needed. Remove excess access from any employees.
2. Utilize Odyssey capabilities to record and print receipts along with create an audit trail. Additionally, utilize Odyssey to write and record checks.
3. Perform routine reviews of transactions performed by employees within Odyssey and Manatron. Review the types of transactions made by each employee to ensure proper authorization and coordination.
4. Obtain online bank statement read only access for primary bank accounts.

## **AUDIT OBSERVATIONS – PART II**

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***CONFIDENTIAL:*** *Not subject to records open to public inspection. Exemption granted by Tennessee Code Annotated §10-7-504 (i) (1) "Information that would allow a person to obtain unauthorized access to confidential information or to government property shall be maintained as confidential."*

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Per generally accepted government auditing standards and Tennessee Code Annotated §10-7-504 (i) (1), certain information has been omitted from the publicly available version of this report due its sensitive nature. A limited use report has been issued to the parties responsible for acting on the recommendations related to this sensitive information.

## **METHODOLOGY**

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To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Clerk and Master.
- Reviewed and analyzed documentation for compliance with the Tennessee Code Annotated, Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

## **AUDIT TEAM**

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Carlos Holt, CPA, CIA, CGAP, CFE, Audit Manager

Lauren Riley, CPA, Auditor-in-Charge

Seth Hatfield, Auditor

CRISTI SCOTT  
CLERK & MASTER  
CHANCERY COURT  
  
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August 23, 2013

Mr. Mark Swann, Metropolitan Auditor  
Office of Internal Audit  
222 3<sup>rd</sup> Avenue North, Suite 401  
Nashville, TN 37201

**Re: Audit of the Office of the Clerk and Master**

Dear Mr. Swann:

This letter acknowledges receipt of the Performance Audit Report and Recommendations for the Office of the Clerk and Master. The majority of the recommendations have already been completed. The remaining recommendations are being addressed. We are confident the recommendations will aid us as we continue to strive to provide the best possible service to our customers.

We appreciate Lauren Riley and Seth Hatfield who were very easy to work with during this process. On behalf of the Office, I thank you and your staff for performing the audit in such a timely and professional manner.

Sincerely,

A handwritten signature in cursive script that reads "Cristi Scott".

Cristi Scott  
Clerk and Master

♿ ADA Coordinator, Cristi Scott (862-5710)

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

| Recommendation  | Concurrence and Corrective Action Plan  | Proposed Completion Date |
|---|---|--------------------------|
| <b>AUDIT OBSERVATIONS – PART I</b>  |   |                          |
| <b>A.1</b> Implement monthly reviews of bank reconciliations by a party independent of the cash collection and recording process.   | <b>Agree.</b> An employee independent of cash collection and recording will review bank reconciliations.  | Completed.               |
| <b>A.2</b> Reconcile all receipt numbers at the end of the month. Missing receipt numbers should be documented with an explanation. Removing receipt numbers should require documented approval.                        | <b>Agree.</b> Missing receipt numbers are largely due to the computer program “freezing” and locking up and then automatically assigning a new receipt number. It is expected that the new accounting program through Odyssey will eliminate this issue. In the interim, a sheet explaining the missing receipt will be placed in the receipt book signed by two bookkeepers. Daily receipts will be placed in numerical order and checked against the spreadsheet for accuracy before preparing deposit. | Completed.               |
| <b>A.3</b> Reconcile check requests to supporting documentation, and then reconcile check stubs to check requests. Check stubs and supporting documentation should be signed off on prior to the signing of the checks. | <b>Agree.</b> A form acknowledging that documentation for the check has been reviewed will be completed and kept in a binder prior to the check being written. The employee who writes the check stub will also write the check.  | Completed.               |
| <b>B.1</b> Confirm all leave time balances annually. Employees should confirm the hours being accrued, the hours taken, and the hours carried forward.  | <b>Agree.</b> Employees are given leave time balances at the beginning of the year. Employee will sign the leave balance sheets and they will be kept in personnel files.   | Completed.               |
| <b>B.2</b> Reconcile EBS leave time to the internally prepared leave time spreadsheet quarterly.  | <b>Agree.</b>   | Completed.               |
| <b>B.3</b> Update Clerk and Master policies and procedures to accurately reflect the leave time policy.   | <b>Agree.</b> Leave time has been corrected to reflect Clerk and Master policies and procedures.  | Completed.               |

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

| Recommendation   | Concurrence and Corrective Action Plan  | Proposed Completion Date   |
|--|---|--|
| <b>C.1</b> Close the current petty cash checking account and utilize purchasing cards for any future unanticipated or reimbursable charges.  | <b>Agree.</b>   | Account has been closed.   |
| <b>D.1</b> Increase the returned check fee to \$30 in accordance with Metropolitan Nashville Code of Laws.   | <b>Partially Agree.</b> Management has asked for guidance from the Department of Law as to which mandated fee to apply—Court’s Order, Metro Code of Laws or Tennessee Code Annotated § 9-1-109. | Immediately upon confirmation of correct fee to apply.             |
| <b>E.1</b> Create job specific procedure manuals for each position within the department. Implement a regular schedule of reviewing the materials for accuracy and currency.                                   | <b>Agree.</b> Job specific procedure manuals will be reviewed and updated on an annual basis.   | Ongoing.   |
| <b>F.1</b> Review access to Manatron software for all users and define specific roles for each employee based solely on the functions needed. Remove excess access from any employees.                         | <b>Agree.</b> Management will confer with the staff of the Metropolitan Trustee’s Office who maintains Manatron on specific roles and functions for each employee and their resulting access.   | November 1, 2013   |
| <b>F.2</b> Utilize Odyssey capabilities to record and print receipts along with create an audit trail. Additionally, utilize Odyssey to write and record checks.   | <b>Agree.</b> Odyssey updates and enhancements to the bookkeeping processes are scheduled to begin in September.  | January 1, 2014  |
| <b>F.3</b> Perform routine reviews of transactions performed by employees within Odyssey and Manatron. Review the types of transactions made by each employee to ensure proper authorization and coordination. | <b>Agree.</b> Management will confer with the staff of the Metropolitan Trustee’s Office who maintains Manatron on a process to review the types of transactions made by each employee.         | November 1, 2013   |
| <b>F.4</b> Obtain online bank statement read only access for primary bank accounts.  | <b>Agree.</b>   | Access to online bank statements has been requested from the bank. |